

Elimination of Non-Tariff barriers would make the SAFTA effective for LDCs: Perspective Bangladesh

1. Dream of Regional integration through SAFTA



After the sign of agreement of SAFTA, there has been increased interest in regional economic integration in South Asia countries. The existing stalemate of the WTO negotiations, it is expected that the interest in regional trading arrangements will be increased further. Regional integration in South Asia has got the momentum in 1995 when the SAARC Preferential Trading Arrangement (SAPTA) was signed. In early 2004, the SAARC member countries agreed to form a South Asian Free Trade Area (SAFTA). The SAFTA has become a parallel initiative to the multilateral trade liberalization commitments of the south Asian countries. SAFTA has come into force from 1st January 2006, with the aim of boosting intraregional trade among the seven SAARC members.

There have been some strong arguments for the regional economic integration in South Asia, as this integration is thought to generate a significant intra-regional trade and welfare gains for the South Asian countries. There are also aspirations among the policy makers and business community in Bangladesh about the positive impacts of SAFTA in Bangladesh economy. It is expected that the SAFTA mechanism, when fully implemented, will provide Bangladesh improved market access, help boost its exports to the region, and improve the country's intraregional trade balance. SAFTA is expected to generate substantial new trade along with the static gains rather than reducing the so-called trade gap. There also dynamic/strategic gains might be achieved that could be even higher due to the possible expansion in the scale of trade operation by getting access to the markets to the relatively larger member countries.

But now, the critics have pointed out a number of factors which have/could undermine the potential benefits from the SAFTA. For example, it is argued that there are limited complementarities has been materialized in the region. Therefore, even under the free trade mechanism, the expansion of intra-regional trade would not be very substantial. Secondly, these countries trade very little among themselves and major trading partners of the individual South Asian countries are located in the West. Thirdly, it is alleged that SAFTA may lead to substantial trade diversion than trade creation for some of the member countries. And, finally, it may work as a stumbling bloc for multilateral trade liberalization due to political. These concerns have also been endorsed while examining the existing impacts of SAFTA on Bangladesh economy.

2. SAFTA for South Asia: Have any Implications for LDCs

There are five LDCs in South Asia, namely Bangladesh, Bhutan, the Maldives and Nepal and Afganistan have been provided some special and differential treatments (S&DTs) within the SAFTA Treaty Text. These special provisions may have important implications for LDC like Bangladesh. This discourse has been tried to critically analyses on these special provisions and their real implications.

The S&DTs in the SAFTA Treaty Text are contained in (i) three sub-paragraphs in Article 3 (Objectives and Principles); (ii) four paragraphs in Article 7 (Trade Liberalization Programme); (iii) entire Article 11 (Special and Differential Treatment for the Least Developed Contracting States); and (iv) in Article 16 (Safeguards Measures).

The Agreement has allowed longer timeframes to reduce or eliminate tariffs of the LDC members. Also the treaty asks for a rapid tariff reduction or elimination by non-LDC partners on products originating from LDCs. This provision has been argued to be favorable to the LDC members. But concerns have been raised on two grounds: firstly, the first stage of tariff reduction seems to be redundant for all the South Asian countries. For example, Bangladesh (As LDC) has taken unilateral tariff liberalization (reduced up to 20%) due to obligatory measure of WTO rules. That's why Bangladesh has not any significant gain during the first two years of the Tariff Reduction Programme even other LDCs. Secondly; there are also concerns about the second stage of tariff liberalization. Because the 3-year gap between LDC and non-LDC members appears to be low, As the presence of negative / Sensitive lists and so called "Non or Para-tariff"

Number of Sensitive List of SAARC Countries

Country	LDCs	NLDCs
Bangladesh	1249	1254
India	480	884
Maldives	671	671
Nepal	1300	1350
Pakistan	1191	1191
Sri Lanka	1065	1574
Bhutan	259	259
Afghanistan	1072	1072

Source: Ministry of Commerce, Bangladesh

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barrier by the non-LDC members those restricts significantly the potentials of market access of the products from LDC members in the non-LDCs.

3. Bangladesh's (As LDC) Trade scenario with Neighboring SAARC Countries

While we examining Bangladesh's trade with her neighboring countries can see that the overall intra-regional trade among the South Asian countries is very low. But these countries of South Asia have becoming progressively more closed relative to the world market and trying to intensify their market access ignoring the SAFTA. That's why the intra-regional trade has fell and limiting into just 2 percent of the region's total trade in 2002 and slightly rose in 4.4 % in 2005. This scenario is in sharp contrast with the intra-regional trade amongst ASEAN member countries, which is estimated at 26%. Even with a low intra-regional trade Bangladesh is the single largest importer in South Asia, and that still increasing. Bangladesh accounted for 36.4 percent of total intra-regional import. In contrast, Bangladesh's exports to the region accounted for only 2.3 percent of the total regional exports in 2007.

Bangladesh's trade with her neighboring countries is also highly unequally distributed. It's also reality that the trade volume of Bangladesh very little with Bhutan, Nepal and Sri Lanka. In South Asia, India is the major trading partner of Bangladesh followed by Pakistan. But, the trade with India is largely one-sided, as the volume of imports from India to Bangladesh is considerably very large, whereas the volume of exports from Bangladesh to India is very low. Therefore, it's being seen that Bangladesh has high bilateral trade deficit with India (there existing trade deficit is near 04 billion US\$ in 2006-07 financial year).

An Overview of Inter Regional Trade among SAARC Countries

Country	Export Share %	Import Share %
Bangladesh	2.3	36.4
India	77.2	36.4
Maldives	0.3	2.6
Nepal	5.4	14.5
Pakistan	7.3	7.1
Sri Lanka	7.5	26.6

Source: SAARC Trade Statistics

4. Non-tariff and Para-Tariff Barriers creates deadlock of SAFTA effectiveness

In the Article- 03 (Objective and Principle) of SAFTA agreement has clearly stated that "The Objectives of this Agreement are to promote and enhance mutual

trade and economic cooperation among Contracting States by, inter-alias". It means the SAFTA agreement will contribute to eliminate all sort of barriers to trade in, and facilitating the cross-border movement of goods between the territories of the contracting States in compliance the measures of Article 08. But in reality we observing that our neighboring country especially India who is the owner of largest economy among SAARC countries, but also treated now one of the world most active user of these non-tariff barriers in SAFTA materialization. That's why LDCs can't able to increase their trade despite reducing the sensitive list up to 480 comparing the 744 in 2006.

5. What's our expectation through SAFTA accorded for trade boosting of LDCs and Poverty Alleviation

The SAARC leaders have expected that the SAFTA will play an effective role for poverty alleviation in South Asia. This agreement will ensure free trade, enhance the foreign direct investment in LDCs and create employment. Govt. revenue will increase and will be deployed for poverty eradication program.

SAFTA agreement is enacted from 01st January, 2006. Many of the clauses of agreement are still to be implementing and planned for full phase implementation by 2015.

This is very important issue for LDCs like Bangladesh and others of SAARC to increase their national income and achieve the poverty eradication goal by using the opportunity of SAFTA.

But the analyses of social and economic context of SAARC countries are giving a clear picture of deprivation. There are 400 million people are living under the poverty line; that must be addressed through integration and boosting of regional trade among SAARC countries and that also possible if SAARC leaders have positive wish. So creating a meaningful SAFTA must have to considered the following issues;

- The full pledged implementation of Article -08 of SAFTA accord have to be done by NLDCs that will eliminate all sort barriers (So called Non-tariff and Para-tariff measures those are also emerging in a trade restrictive manner, which needs serious consideration by NLDCs) of inter regional trade and create market access for LDCs.
- LDCs should have special facilities to export their main product (e.g. Garments for Bangladesh, Tea for Sri Lanka, and Fish for Maldives etc) to the NLDCs
- Common SAARC sensitive list have to be developed beyond SAFTA. This common sensitive list would protect the intra-SAARC market, boost trade & trade diversification and also have to able to face the global competitiveness.
- Effective technical support and cooperation have to ensure for enhancing the regional as well as global trade and to be build up the LDCs capacity in case of global competitiveness. The area of technical cooperation will be as infrastructure development, regional connectivity & transit to land lock SAARC member countries, technology transfer, ICT and inter-regional financing & investment. These arrangements will further facilitate the movement of goods and people in the process of fostering regional integration. The arrangements and also will be facilitated under the Aid for Trade and should support enhancing the intra-regional trade as well as the overall trade capacity, with focus on the LDCs.

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